



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

DRAFT

Date Amended:	4/17/06	Bill No:	AB 2670
Tax:	Property	Author:	Aghazarian
Related Bills:	AB 1228 (2001)		

BILL SUMMARY

This bill would convert the property tax assessment and revenue allocation procedures for state assessed unitary railroad property to the countywide system used for all other state assessed properties.

Additionally, for certain loading facilities newly built by a railroad company, it would provide that 20% of the value would be allocated to the tax rate area where the facility is located so that a greater share of the resulting revenue would be dedicated to the governmental entities providing services to the property.

ANALYSIS

Current Law

Under existing law, the unitary property of regulated railroad companies is reported, the value of the property is allocated, and the resulting revenue is distributed according to the "tax rate area" where the property is located. A tax rate area is a specific geographical area within a county wherein each parcel is subject to the taxing powers of the same combination of taxing agencies. Statewide there are nearly 58,000 tax rate areas.

All other state assessed unitary property is reported, assessed, and allocated to a special "countywide" tax rate area. The Board of Equalization (Board) allocates state assessed unitary values to a single countywide tax rate area in each county where the assessee has property. A special countywide tax rate is applied to the assessed value of this property. Statutory formulas are then used to allocate taxes to the numerous local agencies in the county. (See Revenue and Taxation Code Section 100)

Proposed Law

This bill would allow railroad companies to report their unitary property holdings by county, rather than by individual tax rate area. It would additionally allow the Board to allocate unitary values by county, rather than by tax rate area. A second special countywide tax rate area would be established for purposes of allocating the assessed value of property of a regulated railway company. Therefore, two countywide tax rate areas would exist; one for state assessee unitary property other than railroads under existing Section 100(a), and another for railroad unitary property under new Section

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100.1(a)(2)(A). This bill would also require the county auditor to make special allocations of the resulting revenues as specified.

This bill would also provide that 20 percent of the value of a qualified facility, as defined, would be allocated exclusively to the specific tax rate where the property is located and require the county auditor to make special allocations of the resulting revenues.

In General

State Assessed Property. Article XIII, Section 19 of the California Constitution requires the Board to assess property owned or used by regulated railroad companies. It also requires the Board to assess the property owned by certain public utilities. These properties are commonly referred to as “state assessed” properties because the Board, rather than the local county assessor, is responsible for determining the value of the property for property tax purposes. However, counties are responsible for billing, collecting, and apportioning the resulting taxes. These functions are the responsibility of the county auditor and the county tax collector.

Unitary Property. A state assessee’s property holdings are valued as a single unit and the total value is subsequently allocated among the counties.

Generally, state assessed properties operate as an integrated unit and often cross county boundaries. Property owned or used by a state assessee that is used in the company’s primary operations as part of the company’s integrated system is assessed as “unitary property” and the company is valued as a single unit under the principal of unit valuation. A “unit valuation” of a public utility company or a railroad company captures the value of the company’s property as a system of interrelated assets, rather than a valuation of individual components of land, buildings, and other assets.

For these companies, value depends on the interrelation and operation of the entire public utility or entire railroad. For instance, there would be little worth to one section of railroad track or one section of an electrical transmission line; rather their value depends on being a part of an integrated system.

Property Tax Revenue Allocation

Locally Assessed Property. Generally, property tax revenues from locally assessed property are allocated by situs of the property and accrue only to the taxing jurisdictions in the tax rate area where the property is located. A tax rate area is a specific geographical area within a county wherein each parcel is subject to the taxing powers of the same combination of taxing agencies.

State Assessed Property. Under current law, the allocation procedures for property tax revenues derived from state assessed property are different than those for locally assessed property. The revenue allocation system for state assessed unitary property, with the exception of railroad unitary property, was established by legislation enacted in 1986 via AB 2890 (Stats. 1986, Ch. 1457). Prior to the 1988-89 fiscal year, the property tax revenues from state and locally assessed property were allocated in the same

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manner – by tax rate area. However, the process of identifying property according to tax rate area had become overwhelming for state assesses. As a result, AB 2890 was enacted to allow state assesses to report their unitary property holdings by county, rather than by individual tax rate area. It also allowed the Board to allocate unitary values by county, rather than by tax rate area. This change allowed state assesses to receive only one tax bill per county for their unitary property holdings. Previously, each state assessee received hundreds of property tax bills from each county where they owned unitary property because a separate tax bill was prepared for each tax rate area where property was physically located.

Essentially, AB 2890 established a prescribed formula, performed by the county auditor. The results of AB 2890 are as follows:

1. Preserves each local agency's tax base (hereafter called the "unitary base") for any jurisdiction which had state assessed property sited within its boundaries in the 1987-88 fiscal year.
2. Thereafter, annually increases each local agency's "unitary base" by two percent (provided revenues are sufficient).
3. If there is any property tax revenue remaining after each local agency has been distributed their "unitary base" plus two percent, then this surplus revenue, referred to as "incremental growth," is distributed to all agencies in the county. Agencies with unitary bases also receive a share of the incremental growth.
4. "Incremental growth" revenues are shared with all jurisdictions in the county (i.e., county wide distribution) in proportion to the entity's share of property tax revenues derived from locally assessed property.
5. It is often stated that all state assessee revenue is shared "countywide," but this is not technically true. In essence, it is only incremental growth that is distributed "countywide" without regard to where the growth in value took place or where new construction occurred.

By establishing unitary bases, jurisdictions were held harmless by the allocation system established by AB 2890 and some jurisdictions (those with little or no state assessed property located in their jurisdictional boundaries prior to AB 2890) have since benefited from the countywide system established for sharing the incremental growth.

Legislation has been enacted to establish situs-based revenue allocations for certain stand-alone state assessed properties that were newly constructed after the countywide system was established. Hence, the property tax revenues derived from these proposed projects would go to the jurisdictions in the tax rate area where the project was to be sited rather than being shared with all jurisdictions located in the county as "incremental growth." In addition, there is a fourth exception which applies to a special category of property: state assessed electrical generation facilities that are not owned by a public utility i.e., "merchant plants."

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Revenue allocation procedures for state and local property are summarized in the following table:

Property Type	Revenue Allocation	Revenue and Taxation Code	Legislation
Locally Assessed Property	Situs Based	Section 96 et. seq.	AB 8 (1979)
State Assessed Property			
Unitary Property	Pre-1987 values: Situs Based Incremental Growth: Countywide	Section 100	AB 2890 (1986)
Operating Nonunitary Property	Countywide	Section 100	AB 2890 (1986)
Nonunitary Property	Situs Based	Section 755 & 756	
Railroad Unitary Property	Situs Based	Section 100.1, 755 & 756	
Railroad Nonunitary Property	Situs Based	Section 755 & 756	
Merchant Power Plants	Situs Based	Section 100.9	AB 81 (2002)
Select Stand Alone Properties	Situs Based	Section 100(i), (j), and (k)	AB 454 (1987) SB 53 (1991) AB 2558 (2004)

Background

The historical rationale for the countywide system. The countywide system was established to ease the administrative burdens on state assesses, the state, and counties. Detailed record keeping was necessary to report property holdings, allocate property value, and allocate property tax revenue by the fine detail of the tax rate area. AB 2890 by Assembly Member Hannigan in 1986 created the countywide system. According to the author's press release on that bill, the Assembly Revenue and Taxation Committee had held an interim hearing in the Fall of 1985 on property tax issues that resulted in a number of suggested reforms subsequently included in AB 2890. The press release summarizes the various reforms and, with respect to the new revenue allocation system, it describes the proposed new system as follows:

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Distribute the value of state assessed property to counties on a countywide basis, and distribute the revenue to local jurisdictions in proportion to their local assessed value.

Rationale: This will eliminate a very burdensome administrative job for the Board of Equalization and for taxpayers – the placing of state assessed value into tax rate areas. No jurisdiction will lose any money because the AB 8 distribution formula (and the specific provisions of this legislation) will guarantee all taxing jurisdictions that they will get the same amount of revenue that they got in the prior year from state assessees plus an amount for growth.

In 1987, an Assembly Revenue and Taxation Committee analysis on a related measure, AB 454, provided additional insight into the rationale for establishing the countywide system. That analysis noted:

In AB 2890 (Hannigan) of 1986, a formula distribution of state assessed unitary values was adopted. The justification for this provision were (1) that state assessed unitary property is assessed on a company basis, not on a location basis, and a situs allocation is not consistent with the theory and practice with state assessed valuation procedures and (2) that the attempt to break apart a unitary assessment for the purpose of a situs assessment was causing taxpayers and the State to spend hundreds of thousands of dollars for a bureaucratic purpose that provided no social purpose other than to provide jobs to those doing the work.

COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the California Railroad Industry to simplify the administration and distribution of the property tax as it applies to unitary railroad property, and to be consistent with all other state assessed unitary property.
2. **The countywide system.** Under current law, incremental growth in property tax revenues from state assessed unitary property, except railroads, occurring post-1987 is shared on a "countywide" basis. Additional revenues could be the result of increased property values, new construction or acquisitions of property. Post-1987 incremental growth revenues are distributed to nearly all governmental agencies and school entities in the county in proportion to each entity's share of the county's total ad valorem property tax revenues in the prior year. Under the countywide system all entities receive a share in the revenues from unitary properties regardless of whether any of the value growth actually occurred within its jurisdictional boundaries.
3. **Railroads are an exception to this general process.** The assessed value of unitary railroad company property, unlike the unitary value of other public utility property, is allocated to individual tax rate areas, not the general countywide tax rate.
4. **Railroads were not included in the countywide system established in 1986 at the request of that industry.** Since then, railroads have also become overwhelmed with the administrative complexities of reporting unitary property at the micro tax rate area level and would like the benefits of the countywide system.

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5. **This analysis is limited to the functions of the Board.** This analysis does not address any issues county auditors may have related to their duties in implementing the special revenue allocation provisions required by this bill.
6. **This bill would allow railroads to receive only one tax bill per county for their unitary property holdings.** Additionally, counties would only have to prepare and process one tax bill per railroad company for their unitary property holdings.
7. **This bill would allow the Board to discontinue value allocation by tax rate area.** This process utilizes approximately 60 hours per year of staff time which would be redirected to accommodate other workloads within the program.
8. **It is not possible for the Board to make these provisions effective with the 2006-07 fiscal year.** These assessments would have been already made by the time this bill is enacted. Consequently, it is recommended that the bill be effective beginning with the 2007-08 fiscal year.

COST ESTIMATE

In order to provide counties with the necessary information to make the conversion possible, the Board would incur some one-time costs. A detailed cost estimate is pending.

REVENUE ESTIMATE

This measure has a negligible revenue impact.

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